

Message Text

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SUBJECT: PHILIPPINE ECONOMY IN THE FIRST HALF OF 1975

MANILA 9966

SUMMARY. THE PHILIPPINE ECONOMY TURNED IN A MIXED PERFORMANCE IN THE FIRST HALF OF 1975. THE AGRICULTURE, CONSTRUCTION AND TOURISM SECTORS PERFORMED STRONGLY. THE EXTERNAL SECTOR SUFFERED FROM A WORLDWIDE RECESSION WHICH CONTRIBUTED TO A SEMESTER BALANCE OF PAYMENTS DEFICIT OF \$265 MILLION. WITH THE GOVERNMENT'S FINANCIAL AND FISCAL POLICIES HAVING AN OVERALL DAMPENING EFFECT ON THE ECONOMY, PRICES IN JUNE ROSE AT AN ANNUAL RATE OF ONLY SEVEN PERCENT, AND THE ANNUALIZED RATE OF INFLATION FOR 1975 LOOKED TO BE WELL BELOW 20 PERCENT. THE OUTLOOK FOR THE REMAINDER OF THE YEAR IS FOR SOME PICK UP IN THE ECONOMY'S EXTERNAL SECTOR AND CONTINUED GOOD PERFORMANCE IN AGRICULTURE AND CONSTRUCTION. WITH SIX TO EIGHT PERCENT DEPRECIATION OF THE PESO OCCURRING IN JULY AND WITH LIKELY CONTINUING RESTRAINTS ON FINANCIAL POLICY, THE ECONOMY'S GROWTH RATE FOR 1975 IS UNLIKELY TO EXCEED THE 5.9 PERCENT ACHIEVED IN 1974. END SUMMARY

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1. PHILIPPINE PRODUCTION LEVELS IN FIRST HALF OF 1975

SHOWED GROWTH IN MOST SECTORS BUT AT LOWER RATES THAN EXPERIENCED IN 1973 AND 1974. CONSTRUCTION CONTINUED TO EXPAND WITH EMPLOYMENT IN THAT SECTOR, HEAVILY IN COMMERCIAL CONSTRUCTION, UP 8 PERCENT OVER THE JAN-JUNE 1974 PERIOD AND UP 27 PERCENT OVER THE SECOND HALF OF 1974. AGRICULTURE, WITH THE EXCEPTION OF LOGGING, INCREASED PRODUCTION. IN MANUFACTURING, PRODUCTION WAS UP 5 PERCENT OVER THE LAST HALF OF 1974. PRODUCTION LEVELS IN LOGGING REMAINED LOW AND PRODUCTION IN MINING DROPPED SIGNIFICANTLY.

2. THE EXTERNAL SECTOR SUFFERED FROM ADVERSE DEMAND CONDITIONS FOR SUGAR, COCONUT PRODUCTS, LOGS AND LUMBER AND COPPER. EXPORT EARNINGS FOR THE SEMESTER WERE \$1,205 MILLION COMPARED TO A LEVEL OF \$1,310 MILLION FOR THE SAME SEMESTER OF 1974. IMPORTS AMOUNTED TO \$1,634 MILLION, ABOUT THE LEVEL EARLIER PREDICTED. A STRONG INVISIBLES PERFORMANCE HELPED BRING THE CURRENT ACCOUNT DEFICIT DOWN TO \$119 MILLION. A SUBSTANTIAL SHORT-TERM CAPITAL OUTFLOW BRINGS THE NET FOREIGN EXCHANGE TRANSACTIONS DEFICIT TO \$265 MILLION. MUCH OF THIS CAPITAL OUTFLOW IS ATTRIBUTABLE TO AN ADVANCE PAYMENT OF \$150 MILLION TO INDONESIA FOR PETROLEUM, WHICH, OF COURSE, WILL SHOW IN REDUCED ENERGY IMPORT BILLS AS THE YEAR PROGRESSES. THE COUNTRY'S EXTERNAL DEBT ROSE TO \$3.5 BILLION, AN INCREASE OF NEARLY \$400 MILLION SINCE THE END OF 1974. HOWEVER, THE COUNTRY'S DEBT SERVICE RATIO WAS 18 PERCENT, WELL WITHIN THE STATUTORY 20 PERCENT CEILING.

3. FINANCIAL POLICIES WERE RESTRAINED DURING THE SEMESTER. THE CENTRAL BANK REPORTED A SURPLUS IN THE GOVERNMENT'S DOMESTIC OPERATIONS OF OVER P1 BILLION FOR THE SEMESTER. AT THE END OF JUNE MONEY SUPPLY WAS UP 6.7 PERCENT OVER ITS DECEMBER LEVEL AND 16.7 ABOVE ITS LEVEL THE PREVIOUS JUNE. CREDITS TO PUBLIC SECTOR USERS WERE UP SHARPLY AND TOTAL CREDITS EXPANDED BY 27 PERCENT.

4. PRICES SHOWED THEIR BEST PERFORMANCE SINCE THE LATE 1960'S. CONSUMER PRICES IN JUNE ROSE AT AN ANNUAL RATE OF ONLY SEVEN PERCENT, CONTINUING A DOWNWARD TREND SINCE THE BEGINNING OF THE YEAR. FOOD PRICES INCREASED AT AN ANNUAL LIMITED OFFICIAL USE

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RATE OF 5.5 PERCENT FOR JUNE, A SUBSTANTIAL DECREASE FROM THE 14.6 PERCENT INCREASE RECORDED IN MARCH. NON-FOOD PRICES IN JUNE SHOWED AN ANNUAL INCREASE OF 8.4 PERCENT WITH IMPORTED ITEMS INCREASING 11.9 PERCENT. CONSERVATIVE PRIVATE BANK APPRAISALS SUGGESTED A PROBABLE 1975 RATE OF INFLATION IN THE 15-20 PERCENT RANGE.

5. THE OUTLOOK FOR THE ECONOMY IS FOR MODEST IMPROVEMENT

IN THE SECOND HALF OF 1975. THE KEY FACTOR FOR THE EXTERNAL SECTOR WILL BE THE RATE OF RECOVERY OF THE U.S. AND JAPANESE ECONOMIES. THE SLIGHT PICKUP REPORTED IN THOSE ECONOMIES RECENTLY HAS BEEN ACCOMPANIED BY A FIRMING OF PRICES FOR COPPER CONCENTRATES AND FOR LOGS AND LUMBER. FOR THE DOMESTIC ECONOMY, THE AGRICULTURE SECTOR NEEDS NOT ONLY GOOD WEATHER TO GO WITH FERTILIZER (ALREADY ON HAND) AND OTHER INPUTS TO CONTINUE ITS RECENT GROWTH. EXPANDED PUBLIC INFRASTRUCTURE PROGRAMS IN THE SECOND HALF OF THE YEAR WILL CONTINUE TO STIMULATE THE CONSTRUCTION SECTOR. GROWTH IN MANUFACTURING IS LIKELY TO BE SLOW IN THE ABSENCE OF A FIRMING OF LOCAL DEMAND, EASIER ACCESS TO DOMESTIC CREDIT OR A PICKUP IN EXPORT DEMAND. THE ANNUAL INFLATION RATE MUST BE EXPECTED TO RISE ABOVE THE SEVEN PERCENT LEVEL AS A RESULT OF LIKELY EFFORTS TO BOOST PRODUCTION AND EMPLOYMENT, THE DEPRECIATION OF THE PESO, AND POSSIBLE CORRECTIONS FOR THE OFFICIAL DEFERRAL OF CHANGES IN PRICES OF KEY COMMODITIES IN THE SECOND HALF OF THE YEAR.

6. CENTRAL BANK SOURCES STATE THAT ANTICIPATED DEVELOPMENTS ARE NOT EXPECTED TO PLACE MAJOR PRESSURE ON PHILIPPINE FOREIGN EXCHANGE RESERVES. THIS VIEW SEEMS WIDELY SHARED IN PRIVATE FINANCIAL CIRCLES. THE TRADE DEFICIT FOR THE YEAR CONTINUES TO BE PROJECTED IN THE \$700 MILLION RANGE. A NUMBER OF ANALYSTS CONTINUE TO PREDICT A PAYMENTS DEFICIT OF UPWARD OF \$400 MILLION, TO BE OFFSET PRINCIPALLY BY BORROWINGS AND PERHAPS A SLIGHT FURTHER DRAWDOWN IN RESERVES. REMAINING CENTRAL BANK AVAILABILITIES UNDER CREDIT LINES WITH PRIVATE BANKS ARE \$550 MILLION AND RESERVES ARE IN EXCESS OF \$1 BILLION. THEREFORE, WHATEVER CONSEQUENCES PHILIPPINE POLICIES OF FINANCIAL RESTRAINT MAY HAVE ON THE PACE OF DEVELOPMENT, THEY APPEAR CALCULATED LIMITED OFFICIAL USE

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TO KEEP FOREIGN EXCHANGE PRESSURES WITHIN SAFE BOUNDS.
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